

## Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08

CEA-02 DODE-00 PM-09 H-02 L-03 PA-03 PRS-01 USIA-12

INT-08 IO-12 RSR-01 /197 W

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R 041300 Z MAY 73 ZFG

FM AMEMBSSY COLOMBO

TO SECSTATE WASHDC 9472

INFO AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMCONSUL MADRAS

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E. O. 11652/ GDS

TAGS: PFOR, CE, IN

SUBJ: CONVERSATION WITH PM BANDARANAIKE: SRI LANKA- INDIAN

RELATIONS

REF 1139

1. SUMMARY: PRIME MINISTER BANDARANAIKE SEEMS QUITE PLEASED WITH RESULTS OF HER RECENT CONVERSATIONS WITH PRIME MINISTER GANDHI. FORMULA FOR ACCELERATING REPATRIATION OF INDIAN TAMILS, IF EFFECTIVELY IMPLEMENTED, SHOULD INSURE THAT ALL 525,000 UNDER 1964 AGREEMENT ARE RETURNED TO INDIA. A SRI LANKA- INDIA COMMITTEE HOPEFULLY WILL COME UP WITH FORMULA ON 150,000 TAMILS WHOSE DISPOSITION WAS UNRESOLVED BY 1964 AGREEMENT. COMMITTEE WILL ALSO EXPLORE POSSIBLE CONFIDENTIAL

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RESOLUTION OF THE KACHCHATIVU ISLAND DISPUTE WHERE SOME COMPROMISE SEEMS POSSIBLE, AND THERE IS ROOM FOR INCREASE IN SRI LANKA- INDIA TRADE. MRS BANDARANAIKE BELIEVES PRIME MINISTER GANDHI SINCERELY WANTS TO DISPEL OR REDUCE SRI LANKA'S

SUSPICIONS REGARDING INDIAN INTENTIONS. THESE SUSPICIONS  
STEM FROM THE SOUTH INDIAN- TAMIL PROBLEM RATHER THAN BROADER  
ASPECTS OF INDIA'S RELATIONS WITH SRI LANKA. END SUMMARY.

2. DURING MY MAY 1 MILLION MIGHT BE  
NEEDED TO SET UP A TIRE PRODUCTION PLANT. SINCE SRI LANKA  
ALREADY HAD A NUMBER OF WHITE ELEPHANTS, ON ITS HAND, BEFORE  
MAKING A LARGE- SCALE INVESTMENT IT WOULD WANT TO MAKE  
CERTAIN INDIA WOULD GURANTEE TO BUY NUMBER OF TIRES OVER  
EXTENDED PERIOD.

8. I ASKED PM WHETHER SHE THOUGHT MRS GANDHI HAD SINCERELY  
TRIED TO DISPEL SOME OF SRI LANKA'S SUSPICIONS TOWARD INDIA  
WHICH HAD BEEN INTENSIFIED BY BANGLADESH CRISIS. SHE REPLIED SHE  
THOUGHT THIS WAS ONE OF MRS GANDHI'S PRIMARY PRUPOSES. MRS  
GANDHI HAD ASKED PRIVATELY: " WHY ARE YOUR PEOPLE SUSPICIOUS OF US?".  
MRS BANDARANAIKE HAD REPLIED IT WAS NOT MATTER OF A  
SUSPICION OF INDIA BUT RATHER A SUSPICION OF SOUTH INDIA.  
FOR EXAMPLE SRI LANKA'S SUSPCIONS WERE AROUSED WHEN THERE  
WERE CELEBRATIONS IN SOUTH INDIA ON THE OCCASION OF THE  
75 TH BIRTHDAY OF S. J. B. CHELVANAYAKAM, THE LEADER OF THE  
FEDERAL PARTY IN SRI LANKA. HE PUBLICLY ADVOCATED FEDERATION BETWEEN  
THE SINHALESE AND TAMIL AREAS BUT HIS ULTIMATE GOAL,  
MANY THOUGHT, WAS PARTITION OF SRI LANKA. NOTING PRESSURES  
FOR SEPARATISM IN TAMIL NADU, MRS BANDARANAIKE SAID SHE HAD  
FRANKLY TOLD MRS GANDHI THAT MANY PEOPLE IN SRI LANKA WERE  
CONCERNED ABOUT THE POSSIBILITY OF SOME TYPE OF INDEPENDENT  
OR TAMIL NADU EMERGING WHICH WOULD THEN TRY TO ANNEX TAMIL  
AREAS OF NORTHERN SRI LANKA. MRS GANDHI HAD APPEARED  
SURPRISED AT THESE CONCERNS. SHE SAID SHE WAS UNAWARE OF  
THE CHELVANAYAKAM BIRTHDAY CELEBRATIONS IN SOUTH INDIA AS  
WELL AS THE OTHER ACTIONS AND STATEMENTS OF SOUTH INDIANS  
WHICH GSL CONSIDERED PROVOCATIVE. SHE ASKED FOR AND WAS  
GIVEN A FILE OF NEWSPAPER CLIPPINGS AND OTHER MATERIAL  
WHICH HAD AROUSED GSL'S SUSPICIONS.

9. MRS BANDARANAIKE SAID SHE HAD NOT MENTIONED 1971 INDO-  
SOVIET TREATY BECAUSE MRS GANDHI HAD EXPLAINED BACKGROUND  
OF TREATY IN MANNER WHICH MADE CLEAR SHE FULLY RECOGNIZED  
GSL'S CONCERNS ON THIS POINT. I TOOK OPPORTUNITY TO ASK  
PM WHETHER MRS GANDHI HAD PROPOSED SOME TYPE OF SECURITY  
OR FRIENDSHIP TREATY DURING HER VISIT, RECALLING  
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SIMILAR TREATIES INDIA HAD TRIED TO PROMOTE PREVIOUSLY.  
SHE REPLIED MRS GANDHI HERSELF HAD NOT RAISED SUCH TREATY.  
HOWEVER, SHORTLY BEFORE GANDHI VISIT, SH AND MINISTER  
FELIX DIAS BANDARANAIKE HAD BEEN INVITED TO SMALL DINNER  
BY INDIAN HIGH COMMISSIONER COELHO AT WHICH TIME COELHO  
HAD SUGGESTED SOME TYPE OF FRIENDSHIP TREATY MIGHT BE  
SIGNED BY TWO PRIME MINISTERS. SHE HAD TOLD COELHO SUCH  
A TREATY WAS UNNECESSARY BECAUSE, IF FRIENDLY RELATIONS

EXISTED BETWEEN TWO COUNTRIES, IT WOULD BE UNNECESSARY TO FORMALIZE THAT RELATIONSHIP IN A TREATY. THIS WAS PARTICULARLY TRUE IN CONTEXT OF SRI LANKA'S NON- ALIGN POLICY. IF SRI LANKA SHOULD SIGN A TREATY WITH INDIA, SUCH ACTION WOULD OBVIOUSLY AROUSE QUESTIONS AND CONCERNS IN OTHER COUNTRIES , SUCH AS PAKISTAN AND CHINA.

VAN HOLLEN

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6. MRS BANDARANAIKE ADDED SHE AND MRS GANDHI HAD NOT TALKED ABOUT OIL QUESTION AT ANY LENGTH WHILE DISCUSSING KACHCHATIVU. HOWEVER, POSSIBILITY OF OIL IN KACHCHATIVU AREA WAS ON MINDS OF BOTH GOVTs. SOVIETS, WHO HAD BEEN UNDERTAKING OIL EXPLORATIONS IN NORTHERN SRI LANKA, BELIEVED THERE MIGHT BE OIL NEAR KACHCHATIVU. BUT THEY WERE RELUCTANT TO EXPLORE THE AREA UNTIL THE SRI LANKA- INDIAN DISPUTE WORKED OUT. SAME WAS TRUE IN CASE OF EARLIER CANADIAN EXPLORATIONS.

7. TURNING TO THE QUESTION OF EXPANDED TRADE BETWEEN SRI LANKA AND INDIA, PRIME MINISTER SAID THERE HAD BEEN SOME GENERAL EXCHANGED ON THIS SUBJECT. REAL PROGRESS, IF ANY , WOULD HAVE TO AWAIT TECHNICAL LEVEL DISCUSSIONS WHICH WILL OPEN SOON. AREAS OF ECONOMIC COOPERATION INCLUDED MANUFACTURE BY SRI LANKA OF RUBBER TIRES AND OTHER RUBBER PRODUCTS, AN

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ARRANGEMENT WHEREBY SRI LANKA COULD IMPORT AUTOMOTIVE SPARE PARTS FROM INDIA DUTY FREE AND EXPANDED TRADE IN GRAPHITE.  
TIRE PRODUCTION BY SRI LANKA MIGHT OFFER FAVORABLE PROSPECT  
BUT IT WAS ESTIMATED INVESTMENT OF RS OUR RELATIVE COMPETITIVE POSITION. AND THAT PROCESS, I WOULD NOT ARGUE, HAS BEEN COMPLETED YET.

I WOULD INTERJECT THAT SO FAR AS EXCHANGE RATE CHANGES ARE CONCERNED, I HOPE AND EXPECT IT'S BEEN COMPLETED WITH THE FURTHER CHANGES MADE IN FEBRUARY OF THIS YEAR.

BUT ITS BEEN A LONG AND TORTUOUS PROCESS. THAT PROCESS HAS BEEN IN THE NATURE OF A CHANGE FROM A COMPETITIVE SITUATION THAT EXISTED TO A NEW AND MORE EQUAL COMPETITIVE POSITION-- A NECESSARY CHANGE. IT DOES NOT SOLVE THE PROBLEMS OF THE SYSTEM AS WE LOOK AHEAD.

HOW DO WE BUILD AND REBUILD AND STRENGTHEN A MONETARY SYSTEM AND A TRADING SYSTEM SO THAT YOU CAN MAKE AN ADJUSTMENT MORE SMOOTHLY, OR KEEP AN ADJUSTMENT, WITHOUT GOING THROUGH THE KIND OF CONVULSION, RELATIVELY SPEAKING, THAT WE'VE HAD TO GO THROUGH THE PAST COUPLE OF YEARS? AND I THINK THIS IS THE CHALLENGE AHEAD OF US, AND WHAT WE ARE TRYING TO DO IN THESE MONETARY AND TRADE NEGOTIATIONS. HOW CAN WE REBUILD A MONETARY AND TRADING SYSTEM THAT MAINTAINS AN EQUILIBRIUM, THAT AVOIDS SHARP CHANGE, SHART CONVULSION IN THE FUTURE, AND THEREFORE HELPS TO SUPPORT A MOVEMENT TOWARD FREER TRADE, TOWARD MORE LIBERAL TRADE, AND RESIS TENDENCIES, WHICH I THINK EXIST IN MOST COUNTRIES- THEY CERTAINLY EXIST IN THE UNITED STATES-- TO TURN INWARDS, TO RETREAT FROM THE WORLD, AND TO BUILD WALLS.

THIS IS NOT AN EASY PROCESS, PARTLY BECAUSE ITS TECHNICALLY DIFFICULT. BUT LET ME FORGET ABOUT THE TECHNICAL DIFFICULTIES OF FLOATING RATES AND FIXED RATES THAT CHANGE AND FIXED RATES THAT ARE UNCHANGED, AND HOW YOU CREATE RESERVES, AND ALL THE REST, AND LOOK THROUGH THAT TO WHAT I THINK IS A MORE FUNDAMENTAL PART OF THE DIFFICULTY.

I REFER TO THIS WORLD OF MORE EQUALS. AND YOU EXPECT COUNTRIES -- THE NATURAL STATES OF HUMAN INSTINCT, I SUPPOSE, IS TO COMPETE, AND COMPETITION IS HEALTHY, AND IT BRINGS PROGRESS . BUT IT ALSO CAN BRING SOME DANGERS, AS PEOPLE COMPETE IN CERTAIN WAYS ON AN INTERNATIONAL SCALE IN A NATIONALISTIC KIND OF WAY. HOW DO YOU CONSTRUCT, HOW DO YOU PROJECT, PUSH THE COMPETITION INTO HEALTHY AND CONSTRUCTIVE CHANNELS? THAT, IN A SENSE, IS UNCLASSIFIED  
UNCLASSIFIED

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WHAT WE'RE TRYING TO DO.

BUT, IN DOING THIS, WE HAVE TO RECOGNIZE, I THINK, THAT THERES NO BOSS OF THE WORLD ANY MORE, IN THE SENSE THAT THERES NO COUNTRY THAT CAN SIT THERE AND BE THE WORLD POLICEMAN. YOU CANT PUSH THIS OFF ON AN INTERNATIIONAL INSTITUTION. YOU CAN INFORM-, AND YOU DO INFORM, IN THE MONETARY AREA, THE INTERNATIONAL MONE-TARY FUND, BUT YOU HAVE TO HAVE A HEALTHY RECOGNITION THAT AN INTERNATIONAL INSTITUTION IS NOTHING MORE THAN THE COUNTRIES OF WHICH IT IS MADE UP.

SOMEONE IN AUSTRALIA-- NO, IT WASN' T IN AUSTRALIA, IT WAS IN INDONESIA, SOMEONE TOLD ME A STORY ABOUT WHAT THEY THOUGHT ABOUT INTERNATIONAL INSTITUTIONS. YOU JOIN AN INTERNATIONAL INSTITUTION IF YOU' RE A SMALL COUNTRY, AND IF YOU DISAGREE WITH A BIG COUNTRY, IN THE INSTITUTION YOU GET IN LINE. BUT IF TWO BIG COUNTRIES IN THE INSTITUTION DISAGREE, ITS THE INSTITUTION THAT DISAPPEARS.

AND THERES A CERTAIN AMOUNT OF TRUTH IN THAT STORY.

BUT THE POINT IS THAT THE INSTITUTION ITSELF AND THE RULES THAT INSTITUTION HAS TO " ENFORCE" HAVE TO BE RULES, I THINK, THAT MAKE SENSE TO ALL THE PARTICIPANTS, AND IT WILL WORK SO LONG AS IT MAKES SENSE TO ALL THE MAIN PARTICIPANTS, AND THEY CONCEIVE ITS IN THEIR INTEREST TO MAINTAIN THE RULES AND THE CODES OF CONDUCT. AND THEYRE NOT GOING TO LAST VERY LONG IF THE MAIN PARTICIPANTS DONT CONCEIVE IT IN THEIR INTEREST.

NOW THIS TAKES AN ENLIGHTENED VIEW ON THE PART OF, I SUPPOSE, THE LEADING PARTICIPANTS, OF WHICH THERE ARE MANY. IT ALSO TAKES A GOOD DEAL OF SKILL AND SOPHISTICATION IN DECIDING WHICH RULES ARE ESSENTIAL, WHICH ONES REALLY ARE ESSENTIAL, TO PREVENT THAT COMPETITIVE INSTINCT FROM BECOMING DESTRUCTIVE, AND CHAN-NELLING IT INTO CONSTRUCTIVE AREAS. AND EQUALLY IMPORTANT, I THINK, WHICH RULES ARENT ESSENTIAL , SO THAT INTERNATIONAL COMMERCE, INTERNATIONAL RELATIONSHIPS BETWEEN COUNTRIES DONT BECOME CLUTTERED UP WITH A LOT OF RULES THAT ARENT ESSENTIAL RECOGNIZING THAT WHEN YOU HAVE DISAGREEMENTS BETWEEN COUNTRIES OVER THE APPLICATION OF RULES, YOURE IN DIFFICULTIES.

NOW THIS, I WOULD LIKE TO THINK, IS THE PROCESS WE ARE ENGAGED  
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IN IN A RELATIVELY UNDERSTANDING AND SOPHISTICATED WAY-- DRAWING UP THAT KIND OF SET OF RULES, AND NOT DOING TOO MUCH, BUT DOING WHAT IS ESSENTIAL AND GAINING THE SUPPORT OF THE WORLD COMMUNITY AT LARGE TO A SET OF RULES THAT LOOK SENSIBLE, LOOK REASONABLE, THEREFORE WILL BE ENFORCED, ALMOST SELF-ENFORCED, AND WILL PROVIDE AN ENVIRONMENT IN WHICH BUSINESS CAN CONTINUE TO LOOK OUTWARDS, WITH MORE CHAMBERS OF COMMERCE FLOURISHING, WITH LARGER MEMBERSHIP, BECAUSE BUSINESS WILL BE EXTENDING EVEN MORE VIGOROUSLY ACROSS NATIONAL LINES.

IF WE CAN ACHIEVE THAT, I THINK WE CAN MEASURE OUR SUCCESS BY  
THE DEGREE OF MEMBERSHIP THAT WE HAVE IN INTERNATIONAL CHAMBERS  
OF COMMERCE IN VARIOUS COUNTRIES, AND I THINK THAT IS OUR REAL  
OBJECTIVE.

ITS TERRIBLY EASY WHEN YOURE ENGAGED IN THESE NEGOTIATIONS TO  
GET ALL BOUND UP WITH LOOKING AT ONE ASPECT OR ANOTHER AS AN  
END IN ITSELF-- FIXED EXCHANGE RATES, OR FLEXIBLE EXCHANGE RATES,  
OR SDRS, OR CONTROLS, AND THATS A GOOD EXAMPLE-- AND FORGET THAT  
WHAT YOURE TRYING TO DO IS CREATE CONDITIONS IN WHICH BUSINESS  
FLOURISHERS, NOT IN WHICH BUREAUCRATS FLOURISH.

AND WE HAVE TO KEEP COMING BACK AND REMAINING IN COMMUNICATION,  
I THINK, WITH THE BUSINESSMAN, AND IN SHAPING THESE RULES OF  
WHICH I SPEAK, REALLY ASKING OURSELVES WHICH ONES ARE ESSENTIAL  
TO KEEP INTERNATIONAL BUSINESS GOING AND FLOURISHING. HANNAH

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